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RUEHBR/AMEMBASSY BRASILIA 8627
RUEHBU/AMEMBASSY BUENOS AIRES 5854
RUEHCV/AMEMBASSY CARACAS 3072
RUEHGE/AMEMBASSY GEORGETOWN 0479
RUEHPE/AMEMBASSY LIMA 3274
RUEHLO/AMEMBASSY LONDON 0125
RUEHMD/AMEMBASSY MADRID 3715
RUEHMN/AMEMBASSY MONTEVIDEO 5057
RUEHQT/AMEMBASSY QUITO 5709
RUEHSG/AMEMBASSY SANTIAGO 0316
RUEHTV/AMEMBASSY TEL AVIV 0277
RUEHRI/AMCONSUL RIO DE JANEIRO 0968
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C O N F I D E N T I A L SECTION 01 OF 03 LA PAZ 003150

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SUBJECT: GAS, GOVERNMENT, AND TAKEOVERS: ELECTRICAL
COMPANIES WORRIED.

REF: LA PAZ 3098

Classified By: Ecopol Chief Mike Hammer for reasons 1.4 (b) and (d).

Summary

¶1. (C) Summer rains and resulting hydroelectric production will provide a seasonal buffer for Bolivian electricity supplies, but come June or July the country will likely suffer shortages, brownouts, and possible blackouts. Demand should continue to grow over the following year, but supply will not keep pace due to shortages of gas and a lack of investment in a sector threatened by nationalization and radical campesino takeovers. End Summary.

The Importance of Gas

¶2. (U) The electricity sector exemplifies how hydrocarbon "nationalization" has sent negative ripples across the Bolivian economy. While gas sales only represent around 9% of GDP, stagnant supplies will have a much greater impact on the overall economy. About 57% of domestic electrical capacity is generated in gas-burning thermoelectric plants. The remaining capacity is entirely supplied by hydropower. Several hydroelectric plants that rely on water flow (as opposed to dam fed generators) are able to provide an additional buffer to electrical supplies over the current rainy season; however, come June or July when both river levels and temperatures drop, that buffer will be dangerously thin. Generators believe that Bolivia will almost certainly suffer significant shortages during these months, if not before. (Note: There are 4 major electrical generators in Bolivia, all of which are private: Valle Hermoso (Bolivian), Corani Electrical Company (US/British), Cobee (Israeli), and Guaracachi (British) End Note.)

¶3. (C) Jose LaFuente, General Manager of Corani, said that

electrical demand has been growing at about 4-5% a year, but in 2008 he expects that rate to jump to 8% as three major mining projects are scheduled to increase demand for electricity. To put this in perspective, Bolivia has the capacity to produce about 1,100 Mega Watts (MW) of electricity and the largest mine, San Cristobal, uses between 45-50MW or around 6-7% of the total national production (production does not equal capacity). Next year San Cristobal is programmed to increase their electrical consumption by around 25%. Overall, total demand in 2008 is estimated to be around 950MW, leaving a gap between total capacity and demand of only around 15% -- much less than a normal buffer of between 40-50%. As LaFuente explained, such a low buffer does not allow for necessary maintenance, inevitable breakdowns, or water shortages.

¶4. (C) In an ideal situation for a country with such large gas reserves, additional supply could be generated by simply burning more gas; but in Bolivia, there is no excess supply (Ref A). Moreover, Carlos Querejazu, General Manager at Valle Hermoso, points out that even if the gas were available to boost production at his largest plant, the pipeline which supplies it currently operates at full capacity. Pipeline operator Transredes is limited in the expansion projects it can undertake because under "nationalization" the Bolivian State must legally own over 50% of the company. To date, the State has still not purchased the additional 16% needed to comply with this law. As a result, Transredes cannot effectively borrow money for large projects. To whom would the bank be lending, Transredes or the Bolivian State? Clearly, "nationalization" has not only scared away further investment and development of gas resources, but the

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inability of the government to "finish the job" and set clear legal boundaries continues to hamper the entire economy.

¶5. (C) On a positive note for the companies, government incompetence sometimes works in their favor. On November 1, a 180 day period was set to expire in which new gas delivery agreements were supposed to be negotiated with the generator companies. Currently generators pay between US\$1.3 to 1.5 per million BTU (Although Querejazu said that Valle Hermoso was paying only \$1.1MBTU) and charges were expected to be increased to at least \$1.8MBTU. Querejazu was becoming increasingly worried as the deadline approached and he was unable to communicate with government officials. In the end (and to the delight of the companies), the government extended the period of "negotiations" for an additional 180 days. Querejazu estimates that this will save the company around \$200,000 a month and believes it is solely the result of the State not understanding how to go about negotiating.

Government Threats

¶5. (C) Over the past year, the electrical industry has lived with the constant threat of nationalization. Last August, the sector was moved back under the authority of the Ministry of Hydrocarbons (which was seen as a move to give authority to a Ministry with experience in nationalizations); moreover, government rhetoric has been consistent in its calls for state control. Under the November 26 ruling-Mas Party Constitution draft, the State will not only seek to end all private monopolies or oligopolies (which would apply to the electrical generators), but it will also have exclusive authority "in all productive and commercial activities that are considered vital in the case of public necessity." Perhaps no sector is more vulnerable than electricity.

¶6. (C) Under these circumstances, it is not surprising that there has been little investment in the sector over the past year. LaFuente says that Corani would like to invest in another generator for its dam, but at the moment is unwilling

to make the 10-15 million dollar commitment. At Valle Hermosa they have purchased a used generator for their thermoelectric plant, but have still not bought the mounting equipment. Querejazu says that for now plans are on hold and the generator was purchased because it can always be used for spare parts. One good example of the pressure that companies are under comes from Valle Hermosa. They operate a small hydroelectric plant jointly with the State. Control was divided 59% for Valle and 41% for the State. Under pressure, the company agreed to allow the government a 50% share. No additional responsibilities were assumed by the State, but as Querejazu said, "it was better to give them a 50% share than risk losing the whole operation."

17. (C) An alternative approach to the current situation is being undertaken by Guaracachi, the largest electricity generator for eastern Bolivia. Instead of holding back on investments, they have heavily indebted themselves through the purchase of used equipment. The logic being that in the past the Bolivian State has refused to take over highly indebted companies. While they believe this gives them a hedge against nationalization, it also means that eastern Bolivia and Santa Cruz are less susceptible to blackouts than the highland areas and La Paz.

Peasant Threats

18. (U) On November 30, the campesinos of Choquetanga in La Paz delivered an ultimatum to the workers of Cobee that they

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were going to take over a thermoelectric plant. They gave 72 hours for employees to leave the plant and said that they themselves would take over operations of the plant. Company spokesman announced that the employees would be evacuated if their security could not be guaranteed. Any disruption at the Cobee plant would affect electricity supply to the city of La Paz.

Comment

19. (C) Even more than most private sector actors in Bolivia, those in the electricity sector feel under threat by a hostile government and by a population being fed a constant diet of anti private sector rhetoric. The recent threats against the La Paz generator legitimate their concerns. Producers fear that what they see as inevitable electricity shortages will be used as an excuse for the government to enact nationalization. However, given the strong wording in the MAS constitution draft, nationalizations may also come quickly as the government seeks to show that it is in control of the economy and is effectively remodeling the country. The hydrocarbon nationalization remains very popular with the public as a whole. Perhaps, however, the difficulties that the State is experiencing in fully implementing it will give them pause about undertaking another such endeavor. Regardless, the one near certainty is that the electricity sector is in for turbulent times.

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